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CANADIAN BANKING.

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THE history of currency and banking in Canada may be divided into four periods: (1) the French regime;—(2) from beginning of British government until establishment of first banks in 1817–18; (3) from 1817–18 until confederation of provinces, 1867, banks being organized under provincial and royal charters; (4) since 1867, the Dominion Parliament having exclusive jurisdiction regarding banking.

A complete account of the first period, during part of which beaver and moose skins were recognized currency, wheat a legal tender, and the "card money" of the French governors formed the chief medium; and the second period, when the coins of five other countries were legal tender, will be found in the writings of Mr. James Stevenson referred to below. During the second period unsuccessful attempts were made in 1792 and 1807–8 to establish banks, and in consequence during the war of 1812 the government was obliged to create an army-bill office or temporary bank of issue.

From 1817 to 1825, however, two banks were established in Lower Canada (Quebec), and one each in Upper Canada (Ontario), New Brunswick, and Nova Scotia, all now doing business except one. During the rebellion of 1837–38 the banks in Upper and Lower Canada temporarily suspended specie payments under permission of an order-in-council.

Before dealing with the fourth period, it is necessary to indicate the condition of banking and currency at time of confederation, 1867. There were thirty-nine

charters, but only twenty-seven banks doing business. The charters expired at various dates from 1870 to 1892, and varied in accordance with views regarding banking in the different provinces. In Upper and Lower Canada (Old Canada) shareholders were liable for double amount of stock, except that there was one bank *en commandite*, the "principal partners" having unlimited personal liability. In most cases notes could be issued equal to paid-up capital *plus* specie, and government securities held. In New Brunswick charters had been granted without double liability, but the principle was being insisted on in renewals, while in Nova Scotia in the opinion of some there was no double liability. In Old Canada and Nova Scotia as a rule total liabilities were restricted to three times, and in New Brunswick to twice the amount of capital. There was also one bank with a royal charter, head office in England, and shareholders not under double liability. The situation was further complicated by the "Free Banking Act," under which notes could be issued secured by deposit of government debentures, and by the legal tender issues of the governments of Old Canada and Nova Scotia. In 1866–67 two of the largest banks in Upper Canada failed, resulting in a very severe financial crisis.

Under these conditions, and after tentative legislation in 1867 and 1870, the first general Bank Act of the Dominion was passed in 1871 (34 Vict., c. v.). It confirmed the special features in the bank working under royal charter, and that

with "principal partners" personally liable, and it will be understood in any statements hereafter regarding banks as a whole that these institutions are not referred to. As the charters of other banks expired, they were renewed under the Dominion Act. The first Act extended all charters ten years, which practice has been followed thus far. There were various amendments during the first few years, but since then changes have been infrequent, except at the regular revisions in 1880 and 1890. The Act hereafter referred to is that assented to May, 1890, and to come in force July, 1891. (53 Vict. c. xxxi.)

CONSTITUTION AND POWERS OF BANKS.

Banking in Canada is not absolutely free as in the United States. A charter must be obtained by application to Parliament, and this of course could be refused. Practically, however, banking cannot well become a monopoly. The minimum subscribed capital permitted is \$500,000 (say £100,000), of which \$250,000 (£50,000) must be paid in, and the fact assured by the money being deposited temporarily in the finance department, after which, on compliance with other important requirements, the treasury board, will issue permission to do business. Shares are held subject to what is known as double liability, i.e. in the event of the bank's assets being insufficient to pay its debts, a shareholder is liable for the deficiency to the extent of an amount equal to the par value of his shares, in addition to any amount unpaid on such shares. Shareholders do not escape the double liability by transfer, unless a period of sixty days has elapsed before suspension. There are elaborate regulations as to the constitution and duties of the board of directors, which cannot be fully explained here. Directors become personally responsible if dividends are declared impairing the capital, and no division of profits in any shape exceeding 8 per cent. per annum is permitted, unless the reserve fund or rest equals 35 per cent. of the paid-up capital. The Act prescribes the form in which the directors' annual report to shareholders shall be made, and requires most comprehensive monthly returns to the finance department, which are printed and discussed in the leading newspapers. The Finance Minister may call for special returns from any bank at any time. A list of shareholders in all

banks, with their holdings, is published by the government annually. A return of all dividends and balances unclaimed for five years is required annually, and in the event of a bank's insolvency, such amounts must be paid over to government to be held for owners. The statute of limitations does not run as against depositors in favor of banks. There are numerous provisions as to a bank's power to take securities for loans. Banks may not lend upon security of real estate. The Act abounds with heavy penalties for breach of its provisions.

NOTE ISSUES.

In the successive Banking Acts of the Dominion Parliament banks have been empowered to issue circulating notes to the extent of the unimpaired paid-up capital. By the first Act the noteholders had no greater security than other creditors. At the renewal of charters (1880) the circulating note was made a prior lien upon all assets; and at the last renewal the banks, at their own suggestion, are in addition required to create in two years a guarantee fund of 5 per cent. upon their circulation, to be kept unimpaired, the annual contribution, however, if fund is depleted, to be limited to 1 per cent. The fund is to be used whenever the liquidator of a failed bank is unable to redeem note issues in full after a lapse of sixty days. Notes of insolvent banks are to bear 6 per cent. interest from date of suspension, until liquidator announces his ability to redeem. Banks are also required to make arrangements for the redemption at par of their notes in every part of the Dominion. The change in 1880 was caused by the failure of a small bank with a circulation of about \$125,000 (say £25,000), paying all creditors only 57½ per cent. The change in the Act about to come in force is due to the demand for a currency, which will pass over the entire Dominion without discount under any circumstances. The history of banking in Canada since Confederation shows no instance in which depletion of the guarantee fund would have occurred. Fines from \$1000 (£200) to \$100,000 (£20,000) may be imposed for over-issue of notes. The pledging of notes as security for a debt, or the fraudulent issue of notes in any shape, renders all parties participating liable to fine and imprisonment. As the crown prerogative to payment in priority to other creditors had been set

ADAMAS

tip on behalf of both Dominion and Provincial Governments, the Act places the claims of the Dominion second to the note issues, and those of the provinces third. Notes of lesser denomination than \$5 (£1) may not be issued, and all notes must be multiples of \$5 (£1). Notes smaller than \$5 are issued by the Dominion Government. With power at 31st December, 1889, to issue \$60,289,910 (say £12,057,682), the banks had in circulation only \$33,559,700 (say £6,711,940). The average of assets, including double liability, to secure each dollar was \$0.37 (say £1 : 17 : 6), the lowest individual average being \$6.05 (say £1 : 4 : 2). The circulation expands and again contracts during three months in each year as much as 20 per cent., owing to the products of Canada being still mainly of the forest and field. This fact, and the necessity for till money without cost at the branches, have caused Canadian bankers to steadily oppose a currency secured by special deposit of securities. During the period since Confederation the banks have provided a currency readily convertible into specie, the volume rising and falling with requirements of trade, and this, apart from legal tender notes of the Dominion, is almost the only class of money in constant use. The amount of legal tenders in circulation is about \$16,000,000 (say £3,200,000), of which over half is held by the banks, the balance representing change-making notes of denominations smaller than \$5 (£1).

RESERVES.

No reserves are actually required by law. The cash reserve in gold and legal tenders has averaged for some years about 10 per cent. Till money is almost entirely supplied by the note circulation. The smaller banks keep their available reserve in deposits with the leading banks in Montreal. The larger banks have their immediately available reserves largely in security loans in New York and Chicago. Forty per cent. of whatever cash reserve a bank may choose to keep must be in Dominion legal tenders, a provision entirely in the interest of the Government.

BRANCH SYSTEM.

Perhaps because the first bankers in Canada were to a great extent English and Scotch, the branch system has become so firmly established that but six or seven

banks have no branches. Altogether there are about four hundred bank offices, including fifteen city branches in Toronto, administered by thirty-eight banks, the largest number by any one bank being forty-four, two other banks having about thirty. One of these has branches from Halifax on the Atlantic to Vancouver on the Pacific, a distance of about 3,500 miles. Any town of 1000 or 1500 people may thus have a bank of deposit and discount of high standing, and administered by a trained bank officer. Slowgoing communities where deposits accumulate, thus provide the means of satisfying the wants of new and enterprising localities, where the demand for money is out of all proportion to local supply. As a result of this economy in the distribution of capital, and the advantages arising from till money without cost, and the profits of circulation, rates of interest in Canada are as low or lower than in any country except the three or four leading nations of the world, and Canadian banks cannot go to Great Britain for deposits as other colonial banks do, because they cannot afford the rates paid by other banks. The proportion of deposits to capital is still so small (only two to one) that branch banking could not have reached its present comparatively perfect development, but for the note issues not being specially secured. It has been argued that if this power was taken away or replaced by a specially secured issue, perhaps one-half of the branches would have to be closed.

The following figures indicate the growth of banking in Canada, 1856 and 1860 being for Old Canada alone (taking the \$ as 5-£1) :-

YEAR.	CAPITAL PAID-UP
1856	\$13,700,000, say £2,740,000
1860	24,400,000 " 4,880,000
1870	32,000,000 " 6,400,000
1880	60,500,000 " 12,100,000
1890	59,500,000 " 11,900,000

YEAR.	NOTE ISSUES.
1856	\$10,500,000, say £2,100,000
1860	9,700,000 " 1,940,000
1870	14,100,000 " 2,820,000
1880	20,100,000 " 4,020,000
1890	32,000,000 " 6,400,000

YEAR.	DEPOSITS.
1856	\$8,600,000, say £1,720,000
1860	15,900,000 " 3,180,000
1870	50,700,000 " 10,140,000
1880	84,800,000 " 16,960,000
1890	136,200,000 " 27,240,000

The total deposits in chartered banks, post office and government savings banks, Montreal and Quebec savings bank, and the real estate loan companies, was at 30th June, 1887, \$183,756,329 (say £36,751,266), and is now over \$200,000,000 (say £40,000,000). The currency of Canada was declared by 34 Vict. c. iv. to be dollars, cents, and mills, similar to that

of the United States. By same Act the British sovereign is declared legal tender at \$4.86 $\frac{2}{3}$. The gold coins of the United States of \$5 and upwards are a legal tender. Copper and silver money is coined, but no gold.

[*Transactions Literary and Historical Society, Quebec*, Stevenson (1874-75, 1876-7, &c.). — Statutes, orders-in-council, and gazettes of provinces before Confederation. — *Dominion of Canada Gazette*, and Acts respecting Banks and Banking, Insolvent Banks, The Currency, Dominion Notes, Savings Banks in Province of Quebec, and Post Office Savings Banks. — *Statistical Record, Canada*. — *Banks, Bankers, and Banking in Canada*, Garland (1890.)]